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E.O. 12958: DECL: 10/25/2016

TAGS: ECON EFIN IS PGOV

SUBJECT: ISRAELI BUSINESSES STILL INTERESTED IN PALESTINIAN
TIES

Classified By: Economic Counselor William Weinstein for reasons 1.4 b a
nd d

SUMMARY

¶1. (C) Israeli business owners, academics, and a prominent NGO offered mixed, though predominantly positive, views of the future of Israeli-Palestinian business ties under more peaceful conditions. Two interlocutors -- an academic and the owner of a shipping company -- were decidedly pessimistic. The transporter argued that the lack of trust between Israelis and Palestinians, combined with the absence of guarantees that payment will be received and the border crossings open, will keep her from doing business in the territories. The academic suggested that Israel's economy -- which receives an increasingly large share of its GDP from the hi-tech sector -- has advanced past its former dependence on low-skilled Palestinian labor, and, instead, Israelis will focus more on the new economic opportunities with Arab states that will result from a final peace agreement than on renewing ties with the Palestinians. The remaining interlocutors, however, are eager for a resolution of the conflict, precisely so they can expand the small projects they already are pursuing with Palestinian businesses in the territories. These sentiments are echoed by the findings of a new report from the Peres Center for Peace, which suggests both economies could enjoy increased GDP and employment if they were able to more fully exploit their economic relationships. As the study, business owners, and academics each acknowledged, very little can be done to improve the

business ties without improvements in the political and security situation that will permit the regular movement of people and goods in and out of the West Bank and Gaza Strip.
End Summary.

IS THERE ROOM FOR THE PALESTINIANS IN THE ISRAELI ECONOMY?

¶12. (C) Israel's economy has become increasingly developed, open, and outward-looking over the last two decades. With this progression, the hi-tech sector has begun accounting for a steadily increasing proportion of the Israeli economy. In addition, Israeli companies have populated the NASDAQ -- Israel has more companies listed on the exchange than any other country besides the U.S. -- and venture capital and other investment funds have sprung up to take advantage of opportunities both inside Israel and, with increasing frequency, outside the country. While Israel's economic ties with the Palestinians have been relatively robust during previous periods of political and security stability, it is reasonable to question whether such relationships will be sustained by an Israeli economy that is increasingly tied to the global market and less dependent on labor-intensive industry. Israel's disengagement from the Gaza Strip in 2005, implemented with virtually no concern for the lost economic benefit of the territory, suggests Israel's primary goal is a more secure environment, obtained unilaterally if necessary, even if it results in the forfeiture of potentially lucrative economic relationships with the Palestinians. With this recent history in mind, an important question emerges: will the Israeli economy, given its increasingly robust hi-tech orientation, ever again generate significant demand for the kinds of goods and services the Palestinians could provide it, even in a more peaceful, stable environment? An Israeli NGO is preparing to publish a report indicating that there is still great potential for cooperation. To test the theory, Econoff conducted a series of interviews with Israeli business owners and academics to gauge their level of interest in expanding economic ties with the Palestinians under more stable, secure conditions.

NGO TOUTING "THE UNTAPPED POTENTIAL"

¶112. (C) A new report from the Peres Center for Peace suggests Israeli-Palestinian economic cooperation could be lucrative for both parties. Smadar Shapira, Director of the Business and Economics Department at the Center, on 17 October described for Econoff the results of a recent study completed by the non-profit on the possible impact of future Palestinian-Israeli economic cooperation and development. The study was completed using empirical data from the Israeli and Palestinian statistics bureaus and Palestinian customs authority and by conducting interviews, based on a uniform questionnaire, with Israeli and Palestinian businesses. It aims to quantify the economic benefits that could accrue to both sides within 5-10 years of political stability and security, though it declines to further describe the attributes of such a scenario. According to the preliminary English translation of the report, passed by Shapira to Econoff, the study suggests the value of Palestinian exports could cumulatively rise to some USD 11 billion per year (compared to USD 500 million in 2005), while Palestinian employment would benefit from the creation of over 500,000 new Palestinian jobs within 5-10 years. The cumulative contribution to Palestinian GDP would amount to approximately USD 8 billion, tripling the GDP from USD 4 billion in 2005 to approximately USD 12 billion within the 5-10 year period. Israel would benefit similarly, with the value of Israeli exports rising by over USD 17 billion, through the creation of a new Arab country-oriented export bloc and with the resurgence of tourism to the Holy Land. The study suggests 400,000 new jobs could be created in Israel and annual GDP could increase by approximately USD 12 billion.

¶113. (C) Conversely, the study estimates that the severing of

economic ties and business relations between Israel and the Palestinians would result in the immediate loss of the Palestinians' only export market, Israel, which accounts for approximately 90 percent of Palestinian exports. The Israeli economy would lose about 5 percent of its non-diamond exports and perhaps thousands of jobs. The study argues, as others have, that cooperation with Israel is the Palestinian economy's only avenue for strong and immediate recovery in a stable political and security scenario. While the official findings fail to discuss the possibility that Israel might choose to bypass Palestinian business opportunities for bigger Arab markets in a peaceful scenario, Shapira acknowledged that Israel may forego Palestinian connections in favor of Arab states in some product lines, such as hi-tech products. She maintained, however, that the Palestinian market will remain a good destination for traditional, low-value-added Israeli goods.

TRANSPORT COMPANY NOT OPTIMISTIC

¶2. (C) Israeli shipping executive Naama Arkin, a self-described "leftist" who was "disillusioned" by the breakdown of the Oslo process, is not optimistic about the future of Israeli-Palestinian business ties. While she recognizes that there are lucrative opportunities for cooperation, particularly for a transport company such as hers, she does not think the challenges presented by the dire security situation can ever be overcome. Arkin, Managing Director of Israeli shipping company Inlandbridge, Ltd., on October 16 described for Econoff her previous efforts to build ties between her own business and Palestinians in need of a way to ship their exports to market. She founded Inlandbridge in 2005 after selling the Israeli branch of the Mediterranean Shipping Company, the second-largest container shipping company in the world. She originally had planned to cater to Palestinians hoping to export their goods from the West Bank and Gaza Strip in the post-disengagement environment. However, she soon abandoned her stake in the Palestinian market in favor of solely Israeli customers, because the Palestinians were unable to guarantee on-time payment and because the closure regime in the territories made it impossible to devise a regular schedule of shipments.

¶3. (C) For her, the biggest obstacle to doing business on a broader scale, even in a more stable security and political environment, is a lack of trust. She said she worries about her physical safety, and she has trouble encouraging Israeli colleagues who feel the same way to join her in partnerships with Palestinian businesses. In addition to this lack of trust, she thinks the closure regime is another significant barrier to closer economic cooperation. Arkin said the lack of reliability and the prohibitive cost of sending goods into the West Bank and Gaza Strip drives producers to markets in Europe, which are farther away, but still cheaper to ship to. Arkin said she is able to arrange shipment for a 40-foot container to western Europe for USD 370, and the transaction is conducted via western standards and payment is guaranteed. She said it can cost up to USD 1200 to ship a container into Gaza, and even then, she's not sure when or if it will arrive. She said the poor management of the Karni crossing, and the graft and cronyism rampant there, prevents most companies from even considering using it. To make the Palestinian territories a viable place of business for Israeli companies, Arkin said the crossings and closure regime must be upgraded first, by reorganizing the holding area immediately. Tenders could then be issued to authorize a few companies to transport goods into Gaza, and bank guarantees could be awarded to them to protect them from litigation or losses.

TEXTILE MANUFACTURER EAGER FOR MORE

¶4. (C) Ramzi Gabbay, President of Offis Textile and Chairman of the Fashion and Textile Division of the Israeli

Manufacturers' Association, would like to expand his business interests in the Palestinian territories but presently is constrained by a combination of fear and logistical difficulties. Gabbay on October 16 told Econoff that he currently employs 300 Palestinian women in a factory in the West Bank town of Tulkaram. Gabbay sends the bolts of fabric from his main plant in Azor, outside Tel Aviv, to the factory, where the women cut and sew it into finished products. It eventually leaves the West Bank packaged and ready to be put on the shelves in major retail outlets around the world. To try to mitigate the irregularities associated with the border crossings, Gabbay employs one Israeli Arab man, who lives in a village inside the Green Line but close to the West Bank, to transport the raw fabric into the West Bank and the finished products out. The man is known to the Israeli and Palestinian officials on both sides of the border and is able to make the crossing with relative ease.

¶ 15. (C) Gabbay says he and the other textile manufacturers he represents via the Manufacturers' Association could employ "thousands" more Palestinians in the industry, if the security and travel arrangements were easier. He acknowledges that Israel needs the Palestinian laborers, just as much as the Palestinians rely on Israel for the orders that they fill. In Gabbay's opinion, the high-quality Palestinian labor is crucial for his industry, which is trying to compete against low-cost Chinese producers. He says he and other manufacturers like him would expand their business interests in the Palestinian territories if they could travel there more safely and move their products in and out with regularity. As things stand now, however, the increased risk caused by the irregularity of the crossings and closure regime prohibits him from expanding his business interests in the territories. At the same time, he recognizes that need for the border restrictions under the present security conditions. After telling Econoff that he wishes he could travel into the West Bank for business, he said, "I won't, because I'm afraid they'll kill me."

AGRICULTURAL EXPORTER READY TO EXPAND TIES

¶ 16. (C) Avi Kadan, the owner of Adafresh, an agricultural export company, on October 19 told Econoff that he presently does a fair amount of business with Palestinian growers and is confident there would be even more opportunities in a peaceful environment. Kadan established Adafresh in September 2005 as a follow-on to Arava, an agricultural export company he founded in 1991 to compete with Agrexco, the Israeli government-owned exporter. After organizing Adafresh in 2005, he partnered with PEDCO, the Palestinian Economic Development Corporation, to export the produce from the Gaza Strip greenhouses evacuated by settlers during the August-September 2005 disengagement. After developing a new brand, PED, specifically for the initiative and marketing it widely in Europe, he was able to start shipping produce 1-2 weeks after the Palestinians took control of the greenhouses. He eventually exported 500 of the 7000 tons planned, before lengthy closures of the Karni crossing resulted in the loss of the season. The deal fizzled further after HAMAS entered the Palestinian government and all communication with the Palestinians ceased. He currently is working with another set of Palestinian farmers in the West Bank who grow fresh herbs in 3.5 hectares of greenhouses.

¶ 17. (C) As a result of his Gaza greenhouse experience, Kadan thinks it is almost impossible to do business in the Palestinian territories under the current conditions. To be successful in his line of work, Kadan says, he must be able to guarantee reliability, quality, and competitive pricing. While the Palestinians offer both good quality and pricing, it is impossible, due to the crossings and movement restrictions, for them to guarantee that their shipments will arrive on-time, if at all. In a peaceful scenario, when freedom of movement might improve, Kadan could employ West Bank growers, who enjoy a milder climate than Israeli farmers in the Negev or outside Tel Aviv, to produce fresh herbs in

the summertime and compete against European producers. In addition, better ties with Palestinian producers also would open up opportunities for his company in Arab or Muslim countries. Kadan says he could use Palestinian produce to enter these markets initially, then eventually bring in Israeli-grown product, too. In an early effort to test this theory, Kadan concentrated his marketing efforts for PED, the Gaza brand, in his Rotterdam subsidiary, to hide the Israeli connection and encourage Arab buyers.

TOUR OPERATOR EAGER TO REENTER THE WEST BANK

¶8. (C) Yehuda Raviv, Vice President of Amiel Tours, on October 18 told Econoff his company immediately would begin to explore new tourism opportunities in the West Bank and the Gaza Strip once the security situation has improved enough to allow regular travel in and out of the territories. Raviv said his company had considered the opportunities in 2000, before the start of the second intifada. At the time, they created a new brand, ISPAl, in conjunction with Palestinian partners in East Jerusalem. The company was focused on developing new destinations in Jericho, Bethlehem, and Ramallah and even was working to arrange regular, cheap flights into the Gaza Strip. He said the pre-intifada opportunities were the result of the freedom of movement people enjoyed in and out of the territories and the general level of comfort associated with the more peaceful time. Amiel currently does operate some tours into the West Bank, but only if the group going is connected to an NGO inside the territory and rides in a bullet-proof bus.

¶9. (C) Raviv is confident the more relaxed security environment that would accompany a peace agreement would encourage his company to again operate more tours in the West Bank, though he cautions it will take at least three years of quiet before major European tour operators will reenter the territories. He said the various biblical sites in the West Bank would attract thousands of visitors, who would then demand various hospitality and lodging services from the Palestinians. He even expressed optimism that the beaches of the Gaza Strip, given the locale's short flight-time from Greece and Cyprus, could become an attractive destination for European tourists, possibly capturing some of the Sharm El-Sheikh business.

ACADEMICS OFFER MIXED VIEWS

¶10. (C) Haifa University political science professor Dr. Ranan Kuperman does not think the outbreak of peace will result in significantly better economic ties between Israel and the Palestinians. He subscribes to the view that the Israeli economy no longer requires, or has replaced its need for, the cheap labor source offered by the Palestinians. Kuperman, whose research has produced several works on the politics of economic cooperation between Israel and her neighbors, thinks Israel since the start of the second intifada has filled the jobs formerly occupied by Palestinians with cheaper illegal laborers, primarily from east Asia. In addition, Kuperman thinks the most attractive economic aspect of an Israeli-Palestinian peace agreement will be the new business opportunities with Arab countries that will open up for Israel. He thinks Israeli businessmen will be more attracted to these new opportunities than to expanding ties with the Palestinians, primarily because of the volume of potential business is large and because it could be conducted in the relatively more stable environment offered by some Arab countries. Kuperman does acknowledge that some business ties will expand, though he thinks they probably will be limited to short-term trade and transactions on a limited contract basis.

¶11. (C) Dr. Shlomo Maital, Professor Emeritus at the Technion (the Israeli Institute of Technology), is more optimistic. He thinks both Israel and the Palestinians could benefit from

closer economic ties in a more peaceful, stable security environment. Maital on October 17 told Econoff that Israeli low-tech industries could benefit from traditional use of inexpensive, yet highly productive, Palestinian labor to help improve efficiency and cut costs. In addition, Israeli agricultural and textile producers, now almost completely dependent on foreign workers, also could employ Palestinian labor. Maital thinks Palestinian workers can compete with their foreign worker counterparts on the basis of their better productivity. In addition, Maital suggested that Israeli hi-tech industries, which now do most of their design in Israel but send the fabrication abroad, could also benefit from high-quality Palestinian production and could do more of their production internally with Palestinian help. In Maital's view, the best way to encourage business ties between Israel and the Palestinians in a more peaceful environment is through free trade, with little obstruction from checkpoints and crossings, and via the establishment of joint ventures in science parks located on the Green Line.

COMMENT

¶14. (C) Comment: As the comments of this small cross-section of Israeli academics, private business people, and an NGO demonstrate, there is a future for Israeli-Palestinian economic ties in a peaceful scenario. As these business owners suggest, the demand for Palestinian labor in the textile industry remains strong, and new opportunities for domestic Palestinian industry in the agriculture and tourism sectors could arise if the security situation improves and the closure regime eases. As an academic viewpoint noted, many low-tech jobs formerly filled by Palestinian laborers may have been filled by foreign workers during the intifada period. However, there may be new opportunities for Palestinian workers, given their high levels of productivity, in the hi-tech production areas Israel is working to develop.

¶15. (C) These interviews do not suggest Israel's economy has changed to such a degree that better economic ties to the Palestinians, in a time of peace, would not be demanded, at least, by Israeli textile manufacturers, agricultural exporters, and tour operators. As the Peres Center study argues, the two economies, given their close proximity to one another and the unique political ties they share, are indelibly linked, and improving those connections would benefit each group. Before such a scenario can be fully explored, however, the political and security situation on the ground here must improve to the point that the closure regime can be relaxed to allow the conduct of business by more globally accepted standards. While no one interviewed in the course of this small study was able to articulate -- or even, in some cases, imagine -- what a political resolution to the Israeli-Palestinian conflict might look like, each one stressed that safety concerns and the closure regime are the major impediments to better economic ties between the two sides right now. It is certainly no surprise, then, that the business owner with the interests most impacted by the crossings and movement restrictions -- Naama Arkin, the transport company owner -- is also the most pessimistic. End Comment.

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JONES